

Message Text

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SUBJECT: HIGH LEVEL GROUP ON COMMODITIES (HLGC):
MEETING MARCH 10-11

1. SUMMARY: MARCH 10-11 SESSION OF HLGC REVIEWED RESULTS OF MEETING OF SUBGROUP ON EXPORT EARNINGS STABILIZATION AND NOTED MAJORITY OF DELS WERE FOR THE MOMENT IN A WAIT-AND-SEE POSITION ON QUESTION OF NEED FOR SCHEME ADDITIONAL TO LIBERALIZED IMF COMPENSATORY FINANCING FACILITY. GROUP ALSO HAD DISCUSSION OF BAUXITE, BANANAS, PHOSPHATES, MANGANESE, VEGETABLE OILS, AND TIMBER. EXCHANGE OF VIEWS ON CIEC AND UNCTAD ISSUES DREW SEVERAL COMMENTS THAT G-8 SHOULD IMPROVE ITS COORDINATION AND THAT G-5 SHOULD BE MORE FORCEFUL IN DEALING WITH ISSUES. THERE WAS ALSO GENERAL AGREEMENT THAT SOME FORWARD MOVEMENT ON COMMODITIES NEEDED AT UNCTAD 4 AND THAT CONTINUED ANALYTICAL APPROACH IN
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COMING MEETINGS OF CIEC RAW MATERIALS COMMISSION

WAS DESIRABLE. NEXT MEETING OF HLGC, SCHEDULED FOR WEEK OF APRIL 5 OR APRIL 19, WILL HEAR REPORTS FROM IMF/IBRD ON BUFFER STOCK FINANCING ISSUES AND THEIR WORK ON COMMODITIES. HLGC WILL ALSO TRY TO PULL TOGETHER ITS OWN COMMODITY WORK. END SUMMARY.

2. CIEC AND UNCTAD 4: HLGC CONSENSUS WAS THAT IT WAS CLEARLY DESIRABLE TO BE ABLE TO SIGNAL SOME FORWARD MOVEMENT ON COMMODITIES AT UNCTAD 4 TO KEEP CONSTRUCTIVE PROGRESSION OF DIALOGUE ALIVE AND THAT IT WOULD BE USEFUL TO KEEP CIEC RAW MATERIALS COMMISSION (CORM) DISCUSSIONS ON ANALYTICAL PLANE DURING NEXT TWO SESSIONS. GROUP TOOK NOTE OF EC PROPOSAL IN GENEVA FOR COMMON GROUP B POSITION AND CHAIRMAN IN SUMMARIZING DISCUSSION RECOGNIZED POINT MADE BY US THAT TIMING OF PRESENTATION OF SUCH A POSITION TO OTHER SIDE WAS IMPORTANT TACTICAL QUESTION THAT REMAINED TO BE CONSIDERED.

3. DISCUSSION OF DIALOGUE QUESTIONS WAS LED OFF BY CANADIANS, WHO MADE PLEA FOR BETTER G-8 COORDINATION PRIOR TO CORM SESSIONS, MORE G-5 INITIATIVE VIS-A-VIS G-19, AND MORE INTENSIVE EFFORT TO DEVELOP COMMON STRATEGY FOR CIEC AND UNCTAD 4. SWEDISH DEL IDENTIFIED NUMBER OF PROBLEM AREAS WHICH HE BELIEVED NEEDED BETTER PREPARATION BEFORE UNCTAD 4, NAMELY APPROACH TO "INTEGRATED" CONCEPT, TIMETABLE FOR NEGOTIATIONS, STOCK FINANCING ALTERNATIVES, AND INDEXATION. HE SUGGESTED USING NEXT TWO CORM SESSIONS TO GIVE LDC'S REALISTIC PICTURE OF WHAT MIGHT COME OUT OF UNCTAD 4. EC DEL (WEYLAND OF LUXEMBOURG) READ OUT EC PROPOSED GROUP B PAPER FOR INFORMATION OF GROUP (BUT NOT FOR DISCUSSION BY IT) SAID SOME SORT OF GESTURE WOULD BE NEEDED AT UNCTAD 4 (NOTING THAT OIL PRICE MORATORIUM WOULD BE OVER AT END OF JUNE), AND INDICATED EC WAS SOMEWHAT AT A LOSS AS TO WHAT NEXT CORM SESSION COULD ACCOMPLISH. HE ALSO STATED EC CONTINUED TO FIND HLGC MEETINGS USEFUL FOR EXCHANGING VIEWS, BUT NOT FOR COORDINATION. (SEE PARA 5 BELOW). IN JAPANESE VIEW KEY TO SUCCESS OF CORM WAS THAT LDC'S SHOULD HAVE FEELING DISCUSSIONS WERE USEFUL. AUSTRALIAN DEL EMPHASIZED IMPORTANCE OF G-8 LIMITED OFFICIAL USE

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SOLIDARITY.

4. US DEL (WENDT) NOTED EC CONTRIBUTION TO DEVELOPMENT OF GROUP B PAPER, STRESSING DESIRABILITY OF HAVING COMMON GROUP B POSITION AND NEED TO PICK TIME CAREFULLY FOR PRESENTING IT. HE SAID DC'S APPROACH TO UNCTAD 4 SHOULD BE TO DEVELOP A COHERENT FORWARD-LOOKING ALTERNATIVE APPROACH TO THE UNCTAD INTEGRATED PROGRAM, MAINTAINING

THE CASE-BY-CASE APPROACH TO COMMODITY PROBLEMS, LEAVING OPEN POSSIBILITY OF NO ACTION WHERE THIS MADE MOST SENSE, AND NOT PREJUDICING WORK OF EXISTING COMMODITY BODIES. US DEL PRESENTED US VIEW THAT UNCTAD 4 WAS PART OF CONTINUUM OF EFFORTS TO RESOLVE COMMODITY PROBLEMS AND THAT WORK WOULD CONTINUE AFTER UNCTAD 4 IN OTHER BODIES. HE URGED NEXT SESSIONS OF CORM TO BE USED TO CONTINUE DISCUSSION OF ISSUES ON ANALYTICAL PLANE AND MAINTAIN NON-CONFRONTATIONAL ATMOSPHERE, WHICH WOULD BE USEFUL IN PREPARING GROUND FOR NAIROBI. WENDT ALSO

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URGED THAT G-5 COUNTRIES PARTICIPATE MORE ACTIVELY IN CONSTRUCTIVE, ANALYTICAL DISCUSSIONS IN COMING SESSIONS THAN THEY HAD AT FIRST ONE.

5. US DEL CHOSE NOT TO REPLY SPECIFICALLY TO EC REMARKS ON COORDINATING ROLE FOR HLGC SINCE HE HAD ALREADY PRIVATELY EXPRESSED TO EC REP US OBJECTIONS TO EC'S VIEW. HE HAD ALSO STRONGLY STRESSED US POSITION TO HLGC CHAIRMAN PRESTON (UK) AT LUNCHEON MEETING. PRESTON WAS PERSONALLY SYMPATHETIC. OUR DISCUSSIONS WITH OTHER DELS INDICATE THAT IN GENERAL UK AND FRG FAVOR ALLOWING HLGC A GREATER COORDINATING ROLE FOR CIEC AND UNCTAD 4 THAN CURRENT EC POSITION ADMITS. PRESTON'S JUDGMENT WAS THAT PLACE TO MAKE CASE FOR REVERSING EC ATTITUDE WAS BRUSSELS AND NOT IN HLGC.

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6. EXPORT EARNINGS STABILIZATION: AFTER HEARING REPORT OF WORK OF SUBGROUP, HLGC CHAIRMAN PRESTON TOOK SURVEY OF DELS AND CONCLUDED THAT IN GENERAL MAJORITY OF GROUP NOW TAKING "WAIT-AND-SEE" ATTITUDE TOWARD CONSIDERATION OF ANY FACILITY ADDITIONAL TO LIBERALIZED IMF COMPENSATORY FINANCING FACILITY (CFF). GROUP AGREED TO MAINTAIN EXISTENCE OF SUBGROUP BUT GAVE IT NO FURTHER WORK FOR PRESENT. IN DISCUSSIONS ONLY AUSTRALIA CAME OUT FLATLY AGAINST NEED FOR ANY FURTHER SCHEME, WHILE SWEDEN, NORWAY AND US WERE IN FAVOR. JAPAN AND CANADA SAID IT WAS WISE TO OBSERVE EXPERIENCE WITH LIBERALIZED CFF BEFORE CONSIDERING ADDITIONAL RESPONSE TO LDC PROBLEMS, AND EC INDICATED THAT, THOUGH THEY HAD NO DEFINITE POSITION AS YET, THEY WERE INCLINED IN A WAIT-AND-SEE DIRECTION. US DEL MADE IT CLEAR THAT US SAW GOOD ECONOMIC AND POLITICAL REASONS FOR TRYING TO SET UP A SUPPLEMENTARY, COMMODITY-RELATED FACILITY IN THE TRUST FUND, ALTHOUGH FURTHER INITIATIVE ON THIS SHOULD WAIT UNTIL AFTER FUND ESTABLISHED AND OPERATING.

7. BAUXITE: HLGC DISCUSSION REVEALED MAIN CONCERN OF DELS WAS POTENTIAL FOR PRICE MANIPULATION IN SHORT TERM BY RELATIVELY LIMITED NUMBER OF PRODUCERS. THERE WAS GENERAL AGREEMENT THAT SOME KIND OF PRODUCER/CONSUMER FORUM WAS DESIRABLE, AND NO ONE THOUGHT COMMODITY AGREEMENT FEASIBLE. SEVERAL DELS NOTED PROBLEMS OF ACHIEVING EXCHANGE OF INFORMATION ON PRICES BECAUSE OF INTEGRATED NATURE OF INDUSTRY AND CONFIDENTIALITY OF SUCH DATA. AUSTRALIAN DEL NOTED AUSTRALIA WAS MEMBER OF INTERNATIONAL BAUXITE ASSOCIATION (IBA), AND CONSIDERED IMPROVED CONSUMER/PRODUCER COOPERATION NECESSARY, BUT HAD NOT BEEN SUCCESSFUL IN GETTING MOVEMENT WITHIN IBA IN THIS DIRECTION. US, EC AND SOME OTHER DELS THOUGHT SECRETARIAT PAPER DID NOT SUFFICIENTLY STRESS OECD INTERESTS AS A NET BAUXITE IMPORTER. US DEL EMPHASIZED CONSUMER INTERESTS AND SUGGESTED NATIONAL

STOCKS, SUPPLY ACCESS COMMITMENTS, AND ENCOURAGEMENT OF NEW PRODUCERS AS POSSIBLE COURSES OF ACTION IN ADDITION TO BETTER PRODUCER/CONSUMER RELATIONS. HE ALSO NOTED IMPORTANCE OF HOST GOVERNMENT/MNC RELATIONS AND CONSUMER COHESIVENESS IN ACHIEVING SATISFACTORY RESOLIMITED OFFICIAL USE

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LUTION TO PROBLEMS IN THIS PRODUCT.

8. BANANAS: HLGC NOTED THAT ALTHOUGH THIS PRODUCT WAS OF CONSIDERABLE IMPORTANCE TO A NUMBER OF POORER LDC'S AND SUFFERED PERSISTENT EXCESS SUPPLY, IT WAS HARD TO IDENTIFY BEST WAY TO GO FORWARD. NEITHER BUFFER STOCK NOR EXPORT QUOTAS SEEMED PROMISING. THERE WAS GENERAL AGREEMENT ON DESIRABILITY OF KEEPING PRESSURE ON E. EUROPEANS TO INCREASE CONSUMPTION, THOUGH SEVERAL DELS EXPRESSED DOUBTS THAT THIS WOULD BE REWARDING. THOUGH SWITZERLAND, EC COMMISSION, AND FRANCE EXPRESSED FAVORABLE ATTITUDE TOWARD EXPORT TAXES AS POSSIBLE MEASURE, CHAIRMAN NOTED IT WAS AWKWARD FOR DC'S TO ADVOCATE SOLUTION FOR ONE PRODUCT WHICH THEY MIGHT BE OPPOSED TO IN GENERAL. SWEDEN URGED CONSUMERS ASSUME SYMPATHETIC ATTITUDE TOWARD ACTIONS BY PRODUCERS IN GENERAL. US DEL SAID EMPHASIS ON MARKET PROMOTION AND IMPROVED ACCESS TO MARKETS WAS MOST PROMISING APPROACH AND SUGGESTED GROUP NOT BE TOO PESSIMISTIC ON POTENTIAL FOR INCREASING CONSUMPTION.

9. MANGANESE: GROUP AGREED THIS PRODUCT WAS MAINLY OF INTEREST TO SMALL NUMBER OF LDC'S, MANY OF WHICH NOT AMONG POORERCOUNTRIES, AND THAT PRICE FLUCTUATIONS WERE NOT MUCH OF A PROBLEM. NO ONE THOUGHT MANGANESE A CANDIDATE FOR A BUFFER STOCK OR EXPORT QUOTA TYPE ARRANGEMENT. IN GENERAL HLGC CONSIDERED SOME KIND OF

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PRODUCER/CONSUMER MECHANISM TO EXCHANGE INFORMATION
WOULD PROBABLY BE DESIRABLE, AND SOME DELS THOUGHT
ONGOING WORK IN UNCTAD ADEQUATE IN THIS REGARD.

10. PHOSPHATES: HLGC CONSENSUS WAS THAT PHOSPHATES
WERE OF CONSIDERABLE TRADE IMPORTANCE, PARTICULARLY AS
RESULT OF THEIR FUNCTION AS INPUT TO AGRICULTURAL PRO-
DUCTION. NO ONE THOUGHT THIS PRODUCT A CANDIDATE FOR A
COMMODITY AGREEMENT, AND GROUP GENERALLY AGREED MAIN
PROBLEM WAS POSSIBILITY OF HARMFUL CARTEL ACTION TO
RAISE PRICES. PRICES WERE, HOWEVER, EXPECTED TO DROP
IN 1976, THOUGH, AS RESULT OF SIGNIFICANT INCREASES IN
PRODUCTION COSTS WHICH HAD OCCURRED, NOT TO LEVELS OF
EARLY 1970'S. MOST DELS SAW VALUE IN SOME KIND OF
INTERGOVERNMENTAL GROUP TO EXCHANGE INFORMATION AND AID
PRODUCERS IN FORWARD PLANNING. GROUP AGREED IT COULD
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BE USEFUL TO RAISE QUESTION OF PHOSPHATE PRICES IN CIEC
AS EXAMPLE OF ACTIONS TAKEN BY LDC COMMODITY PRODUCERS
WHICH HAD HARMFUL EFFECTS ON POOREST LDC'S.

1L. TIMBER: MAIN POINTS BROUGHT OUT IN DISCUSSION
WERE: 1) MAIN CONCERN OF LDC'S IS TROPICAL HARDWOODS,
WHICH IS IMPORTANT FOR NUMBER OF COUNTRIES AND DOES
HAVE SIGNIFICANT PRICE FLUCTUATIONS; 2) FOR VARIOUS

REASONS THERE WAS NO PROSPECT OF ANY SORT OF COMMODITY AGREEMENT FOR TIMBER; AND 3) TRADE LIBERALIZATION, ESPECIALLY FOR PROCESSED PRODUCTS, AND TECHNICAL AND INDUSTRIAL COOPERATION TO DEVELOP TIMBER RESOURCES WERE THE MOST PROMISING AVENUES TO INCREASE RETURNS TO PRODUCERS OF THESE PRODUCTS.

12. VEGETABLE OILS: IN VERY BRIEF DISCUSSION GROUP NOTED GREAT DIVERSITY OF PRODUCTS, SIGNIFICANT PRICE FLUCTUATIONS, AND LACK OF ANY OBVIOUS SOLUTIONS FOR PROBLEMS OF PRODUCERS. NO ONE THOUGHT A COMMODITY AGREEMENT FEASIBLE AND THERE WAS GENERAL CONSENSUS THAT TRADE LIBERALIZATION WAS MOST PROMISING AVENUE FOR ACTION.

13. FUTURE WORK PROGRAM: HLGC AGREED WITH CHAIRMAN'S PROPOSAL THAT NEXT MEETING OF GROUP HEAR REPORTS FROM IMF AND IBRD REPS ON LATEST DEVELOPMENTS CONCERNING BUFFER STOCK FINANCING ISSUES AS WELL AS REPORT ON IBRD WORK ON COMMODITIES. IN ADDITION GROUP WILL TRY TO PULL TOGETHER WORK IT HAS ALREADY DONE ON VARIOUS COMMODITIES AND SEE TO WHAT EXTENT THERE MAY BE CONSENSUS ON PRIORITY LIST OF COMMODITIES REQUIRING ACTION AND NATURE OF SUCH ACTION. IT WAS AGREED TO HOLD NEXT MEETING EITHER TOWARD END OF WEEK OF APRIL 5 OR EARLY IN WEEK OF APRIL 19.

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